

REVIEW OF  
FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER CONTROLS  
AND TESTING OF CONTROLS  
NORTHEAST AND CARIBBEAN REGION  
REPORT NUMBER A050009/T/2/Z05024

MAY 18, 2005



General Services Administration  
Office of Inspector General  
Jacob K. Javits Federal Building  
New York, NY 10278



Date: May 18, 2005

Reply to  
Attn of : Northeast and Caribbean Region Field Audit Office (JA-2)

Subject: Review of Federal Technology Service's  
Client Support Center Controls and Testing of Controls  
Northeast and Caribbean Region  
Report Number A050009/T/2/Z05024

To: Eileen Long-Chelales  
Regional Administrator (2A)

Barbara L. Shelton  
Acting Commissioner, Federal Technology Service (T)

This report presents the results of the Office of Inspector General's audit of the Federal Technology Service (FTS) Client Support Center (CSC) in the Northeast and Caribbean Region (Region 2). The Ronald Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration (GSA OIG) and the Department of Defense (DOD OIG) to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

### **Objectives, Scope and Methodology**

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 through October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Northeast and Caribbean CSC, our sample included 10 new awards and 2 existing orders, valued at \$39.6 million and \$214.0 million, respectively. The audit was conducted between December 2004 and March 2005, in accordance with generally accepted Government auditing standards.

## Results of Audit

We determined the Region 2 CSC to not be fully compliant but making significant progress. The Region has implemented national controls identified in the Administrator's "Get it Right" Plan, and has enhanced regional controls, while improving its overall contracting practices compared with our past audit findings. For example, we did not find any instances of non-compliance with the competition requirements of Section 803 of the National Defense Authorization Act for Fiscal Year 2002. However, we did find 2 new orders that had procurement compliance deficiencies, although there was no identified potential financial impact. In our review of 2 existing orders, we found that both had prior deficiencies that had inadequate remediation progress.

As directed in the Ronald Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiencies with No Identified Potential Financial Impact The CSC awarded a \$48,000 open market order for the purchase of 6 Antenna Low Noise Amplifier retrofit kits, on a sole-source basis, to a contractor that retained proprietary rights to both the drawing designs and an interoperable part. The Justification for Award (JFA) incorporated the client's Independent Government Cost Estimate (IGCE), which compared the sole-source quote to open market pricing for two other vendors, one of whom had prepared the original drawings for the kits and the other had been the ship-to party on a previous order for the kits. The task order file did not include supporting documentation for these quotes, and we found it improbable that the other two vendors could have provided the retrofit kits. Although the Contracting Officer's price reasonableness determination was also based on previous procurements by another CSC, we were concerned that the IGCE was reflective of our past audit finding that the CSC frequently incorporated client estimates into the JFA for large services task orders, without establishing the validity of the amounts. The CSC recently took a positive step toward improvement by issuing an ICGE Guidance Procurement Bulletin.

Under an Indefinite Delivery, Indefinite Quantity contract, the CSC awarded an order for shipping support, fielding support and system engineering and training support needed to maintain Single Shelter Switches, Joint Network Nodes and Base Band Nodes. The order was awarded at a \$536,585 Not To Exceed price proposed by the contractor, subject to renegotiation after the CSC provides a more detailed and defined scope of work with a Request for Proposal. The order document, dated September 10, 2004, stated that the contractor would submit a proposal no later than October 26, 2004, at which time the NTE cost would be renegotiated. As of March 22, 2005, this still had not occurred.

### Inadequate Remediation Progress Concerning Existing Orders With Prior Deficiencies

While discussions had been underway between the client agency, CSC officials and Regional Counsel, no firm remediation plan was in place to address audit findings covering an existing order related to the relocation of the client from leased space. One finding involved the CSC's use of an incorrect IGCE to determine the price reasonableness of a \$32 million Video Conferencing Seat Management contract line item. After the conclusion of fieldwork, the CSC issued a modification to extend the period of performance until June 15, 2005, with the intention of turning future contract actions over to the client agency from that date on forward.

We determined that the CSC had not yet incorporated revised invoicing provisions into an existing order for a Secure Wireless LAN project. We reviewed recent invoices and found that they still lacked basic information needed to evaluate billed charges.

### **Conclusion**

While not fully compliant, we found that the Northeast and Caribbean Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's "Get It Right" Plan and has enhanced regional controls, while improving its overall contracting practices. However, we did find procurement compliance deficiencies in 2 new orders, with no identified potential financial impact, and 2 existing orders, with prior deficiencies, had inadequate remediation progress. As stated in the January 2004 report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS, as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

### **Management Comments**

We obtained agency comments throughout our audit work, providing a draft written summary of our findings on each order to FTS Regional officials for their written comments, which we incorporated into our analysis as appropriate. We also provided a draft of this letter report to Regional officials. In her May 5, 2005 response, included as an Attachment to this report, the Regional Administrator generally agreed with the audit findings, with the exception of Task Order 02FM214555. The Region was not in complete agreement with our concern that the IGCE for that order was reflective of past audit findings that the CSC frequently incorporated client estimates into the JFA, without establishing the validity of the amounts. The response stated that the Contracting Officer did not solely rely on the client submitted quotes and used other price analysis techniques for purposes of determining price reasonableness. The audit report had acknowledged that the Contracting Officer's price reasonableness determination took into consideration similar procurements by another CSC. Our concern over the IGCE

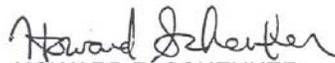
was of a cautionary nature, in view of past-observed practices. We also recognized the Region's effort to strengthen controls in this area through the issuance of a Procurement Bulletin.

#### **Internal Controls**

We assessed the internal controls relevant to the CSC's procurements to assure that the procurements were made in accordance with the FAR and the terms and conditions of the contracts utilized. While we have seen substantial improvements in internal controls, FTS will need to continue their commitment to the "Get It Right" Plan and to implementation of effective controls over procurement processes to ensure full compliance by March 2006.

To help us improve our customer service, please ask the primary user of the report to complete the attached customer satisfaction survey and return it in the enclosed envelope to the Office of Audits' Operations Staff (JAO).

If you have any questions regarding the report, please contact me at (212) 264-8620.



HOWARD R. SCHENKER  
Audit Manager  
Northeast and Caribbean Region

Attachments

MANAGEMENT RESPONSE

GSA Northeast &amp; Caribbean Region

MAY 05 2005

MEMORANDUM FOR: HOWARD SCHENKER  
OFFICE OF THE INSPECTOR GENERAL  
NEW YORK FIELD AUDIT OFFICE (JA-2)

FROM: EILEEN LONG-CHELALES   
REGIONAL ADMINISTRATOR  
NORTHEAST & CARIBBEAN REGION (2A)

SUBJECT: Review of FTS Client Support Center Controls and Testing of  
Controls – Northeast and Caribbean Region  
Report Number A050009

Thank you for your memorandum of April 21, 2005 subject as above, wherein you provided the final results from your recent audit of the Regional FTS Client Support Center (CSC).

Your determination that the CSC is not fully compliant but making significant progress is based on the findings of procurement compliance deficiencies in 2 new task orders, with no identified potential financial impact, and that 2 existing task orders with prior deficiencies had inadequate remediation progress. Our comments/updates relating to the audit findings for these 4 task orders are below.

**Procurement Compliance Deficiencies With No Identified Potential Financial Impact:**

1. Regarding Task Order 02FM214555, valued at \$48,240, and covering a sole-source open market purchase of Light Weight High Gain X-Band Antenna Low Noise Amplifier (LHGXA LNA) Retrofit and associated equipment: We are not in complete agreement with the audit concern that the IGCE was reflective of your past audit finding that the CSC frequently incorporated client estimates into the JFA for large services task orders without establishing the validity of the amounts. The Contracting Officer did not rely only on the client obtained/submitted quotations in determining the reasonableness of proposed prices, and used other price analysis techniques for that purpose (i.e., compared proposed prices to previous award prices for same item in similar quantities).
2. We agree with the audit finding for Task Order 02FM214814, valued at \$536,585. (ID/IQ contract with General Dynamics, providing for support services for Shipping Support; Field Support, System Training and Engineering Support needed to maintain Single Shelter Switches, Joint Network Nodes, and Base band Node Systems used by the Department of Army). After several requests by the Contracting Officer, the contractor still has not provided a proposal to definitize its Not-to-Exceed contract price. The Contracting Officer is considering available options, including the issuance of a final decision with a unilateral price adjustment based on an audit of the contractor's actual costs.

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MANAGEMENT RESPONSE**Inadequate Remediation Progress Concerning Existing Orders With Prior Deficiencies:**

1. Task Order 02FM213631 - Seat Management, Army Materiel Command (AMC), Ft. Belvoir, VA: Because of discussions that occurred between GSA management/legal and AMC management/legal concerning potential remedial actions to be taken under the task order, a firm remediation plan was not in place at the time of the audit. The Period of Performance for the CLINS under this task have been extended until June 15, 2005 after which, GSA will allow the task order to expire and AMC will proceed to contract for the necessary services.

2. Task Order 02FM211081, Secure Wireless LAN Project (SWLAN): Modification AA49, issued on March 24, 2005 incorporated revised invoice submission requirements, and addresses the finding that the CSC had not yet incorporated revised invoicing provisions into the existing order. A copy of this modification is attached for your files.

I appreciate the opportunity to respond to the final audit report. Should you have any questions concerning this matter, or require additional information, please contact me at (212) 264-2600, or you may contact Ashley Cohen at (212) 264-4039.

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